

# Taxes

## State of Indiana Business Taxes



Indiana has no gross receipts tax and no inventory tax.

### Corporate Income Tax

The Corporate Adjusted Gross Income Tax is calculated at a flat 8.5 percent of adjusted gross income. Adjusted gross income is a company's federal adjusted gross income with certain adjustments. This method of determination simplifies tax calculations for corporations and does not apply to S corporations and not-for-profit organizations.

### Single-Sales Factor

Indiana is phasing in the single-sales factor for apportioning corporate income tax. Indiana had determined its share of an interstate or international corporation's taxable income by weighing the Indiana portion of a company's property and the proportion of its employees in Indiana. The single-sales factor will calculate the Indiana portion based solely on the portion of a company's sales in Indiana. This change is being phased in and will be complete by 2011.

### Sales and Use Tax

Indiana's Sales and Use Tax is one of the lowest in the Midwest. The tax is calculated at a rate of 6 percent. In manufacturing, the following are exempt from the sales tax: raw materials, equipment, power, electricity, and utilities. Wholesale sales, items used directly in production, and sales made in interstate commerce are exempt. In addition, the purchase of research and development equipment is exempt from the tax.

### Property Tax

Real and personal property tax is assessed at 100 percent of market value. Tax rates and exemptions vary among local jurisdictions.

### Research and Development Tax Credit

This credit (also known as the Research Expense Tax Credit) is based on the increase in Indiana R&D over the prior three-year base. In the base year, research expenses must have been at least half of the research expenses in the current year. The credit amounts to 10 percent of qualified research expenses on the first \$1 million of investment. Beginning in 2008, the credit increases to 15 percent. The credit is applied against income tax liability and may be carried forward for fifteen years before 2008 and ten years beginning in 2008. There is no carry back, and the credit is nonrefundable. This program operates under the Department of Revenue and uses the definition of "qualified research expense" from the Internal Revenue Code (which includes the costs of wages and supplies).

### Patent Income Exemption

Taxpayers are exempt from certain income derived from qualified utility and plant patents. Qualified taxpayers are eligible for an exemption of 50 percent of patent income for each of the first five years. The exemption percentage decreases over the next five years to 10 percent in the tenth year. The total amount of exemptions claimed by a taxpayer may not exceed \$5 million per year. This benefit is available only to companies with 500 or fewer employees.

### Individual Income Tax

Indiana's personal income tax is 3.4 percent of federal adjusted gross income (with certain exemptions and deductions).

